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UNCLAS SECTION 01 OF 02 COTONOU 000196

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DEPT FOR AF/W (DBANKS)
PARIS FOR D'ELIA

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TAGS: [PGOV](#) [PREL](#) [KCOR](#) [KMCA](#) [BN](#)
SUBJECT: BENIN: CRISIS IN MICROCREDIT SECTOR

COTONOU 00000196 001.2 OF 002

11. (U) SUMMARY: The Government of Benin (GOB) dismissed the Director General of PADME, a microcredit institution, for mismanagement disclosed by a report from the Financial Audit Office (IGF). The Director General (DG) and the employees of PADME denied all allegations of mismanagement and malfeasance and accused the government of attempting to take over PADME. When the GOB refused to back down, PADME personnel went on strike countrywide to protest the dismissal. The situation risks destabilizing the microcredit sector in Benin. END SUMMARY

12. (U) On March 5, 2008, the Council of Ministers examined the IGF audit findings of PADME. The IGF'S report highlighted the following improprieties: mismanagement of the credit portfolio by 39 PADME employees through fictitious loans resulting in a loss of over CFA 1,000,000,000 (about \$2.2 million); excessive and undocumented travels of the DG (over 170 days in 2005; 151 days in 2006 and 57 days from January-July 31, 2007); the payment of an unduly high salary to the DG; and the failure to appoint a deputy to the DG or a Technical Director. The report stated that the DG failed to supervise adequately because of his extended absences.

13. (U). As a result, the Council of Ministers instructed the Minister of Microfinance and Promotion of Youth and Women to dismiss the DG, to dismiss and replace the members of PADME's Board of Directors and to take disciplinary action against the accused. The Council of Ministers also urged the treasury to recover the funds embezzled through fictitious loans and to seek reimbursement for the travel allowances paid to the DG. The government called on the Ministry of Justice to take legal action against the individuals involved in the case. On March 18, the Minister of Microfinance and Promotion of Youth and Women named her technical advisor as Acting DG of PADME and installed him officially on March 31.

14. (U) The PADME DG strongly denied all of the IGF allegations. He linked the GOB's reaction to a research paper that he published on the microcredit sector in Benin, which was not favorable to President Yayi's low interest microcredit program to assist the most poor. The ousted DG claims the government is taking revenge. His lawyer referred to a wide range of ministerial decrees and to the charter of PADME to conclude that the GOB's dismissal of the DG has no legal basis. The DG has challenged the government decision before the Supreme Court. In support of their Director, PADME employees are on strike. Attempts by the GOB to engage PADME employees in dialogue have failed. On March 26, PADME clients staged a protest march through Cotonou. PADME has about 100,000 clients, mostly small traders who can no longer make the required regular payments on PADME loans or renew loans. Every day that PADME branch offices remain closed due to the strike raises public displeasure and the level of inconvenience to the clients.

¶5. (U) PADME is a non-profit organization created in 1993 by the GOB with World Bank financing and consultants from VITA, a U.S. NGO, to off-set the fall-out of structural adjustment. It allowed civil servants to leave the public sector and start private enterprises, in the interest of slimming down a bloated state apparatus. In December 1997, on completion of this project, the PADME was turned into an association with the GOB transferring to it an asset amounting to CFA 2,000,000,000 (about \$4.4 million). According to the Minister of Microfinance, since its creation the government has injected into PADME a total sum of CFA 6,000,000,000 (about \$13.216 million)

¶6. (U) In 1994, the Assembly of the West Africa Monetary Union (UMOA) member states adopted the PARMEC law (Projet d'appui a la Reglementation sur les Mutuelles d'Epargne et de Credit) to regulate mutual or cooperative institutions, including microfinance institutions in the UMOA. Articles 66 and 67 of the PARMEC law, stipulate that Ministries of Finance have primary responsibility for external control and supervision of microfinance institutions and allow member governments to delegate this authority to the Central Bank. Under the framework of the PARMEC law, special provisions known as Tailored Agreements (or Convention Cadre) were introduced in 1997 in UMOA to facilitate registration and supervision of microfinance institutions at the country levels. Consequently, member states had an obligation to adopt this law in their respective countries and to issue decrees for application. The GOB signed Agreement No. 1652 with PADME in 2005, which authorizes the Ministry of Finance to supervise PADME's activities and to take sanctions against employees involved in malfeasance and mismanagement.

¶7. (U) Pending the verdict of the Supreme Court, PADME's lawyer acknowledged the existence of the aforementioned legal instruments governing the microfinance sector in Benin. However, he maintained that the dismissal of the PADME DG was illegal. On the other hand, the Minister of Microfinance based the legality of her dismissal of the DG on the following points: GOB oversight responsibility for

COTONOU 00000196 002.2 OF 002

official funds invested in PADME's operations and applicability of Agreement No. 1652 between PADME and the GOB.

¶8. (U) Until recently, PADME was known as the best microfinance institution in Benin and one of the best in Africa in terms of the quality of the services and outstanding performance. The Director General of PADME, unanimously hailed for his professionalism and competence, was invited frequently to attend conferences worldwide on microcredit issues. According to a well-informed source, PADME was in the last stages of transforming from an association into a for-profit enterprise with local and international investors when the GOB issued its report.

¶7. (SBU) COMMENT: The current situation does not augur well for peace and stability in the already tense environment leading up to local elections now set for April 20. The crisis undermines President Yayi's popularity given the number of people who benefit from and depend on PADME. On one hand, a Supreme Court ruling in favor of the GOB would be a welcome boost for President Yayi's anti-corruption efforts. On the other, the courts would have to establish the DG's culpability in order to dispel doubts surrounding the case and to reinforce the government's credibility. Until these doubts are dispelled, PADME will be essentially moribund and discredited; existing loan holders will have little incentive to repay their loans; and foreign investment in the sector will be stymied. Also, MCC's Access to Financial Services project, which aims to strengthen government oversight of the microfinance sector, may be potentially impacted by the case. It will be crucial to prove that current GOB oversight of the sector is correct and not unduly influenced for political ends. END COMMENT.

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